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C O N F I D E N T I A L ALGIERS 001325

SIPDIS

ENERGY FOR GINA ERICKSON

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TAGS: [EPET](#) [ECON](#) [AG](#)

SUBJECT: KHELIL SAYS OIL PRICES TO STAY HIGH AS ALGERIA
LOOKS TO EXPAND REFINING CAPACITY

Classified By: Ambassador Richard W. Erdman, reasons 1.4(b)(d).

SUMMARY

1. (SBU) Energy Minister Chakib Khelil in recent comments expressed confidence that oil prices would not drop below \$50 per barrel, and he did not rule out barrel prices of \$80 or even higher, which he said the international economy could withstand. Algeria's windfall oil revenue topped \$17 billion in the first five months of 2005. Khelil confirmed to Ambassador that Algeria would increase its own refinery capacity in response to current supply constraints on the market, but the health of the U.S. market was another important factor in the direction of oil prices. Clarifying his unexpected June 4 caution to a U.S. oil company during a trade fair event speech, Khelil claimed that an unnamed firm had engaged in anti-competitive practices in oil field bidding. End Summary.

OIL PRICES TO STAY ABOVE \$50/b
WITH NO HARM TO GLOBAL ECONOMY

2. (U) Energy Minister Khelil said in public comments June 25 that oil prices would not go below \$50 per barrel this year due to lack of refinery capacity, continued capacity pressures during the summer, and the need for refineries to prepare stocks for winter. Responding to a reporter's question about whether the price of crude oil could attain \$100, Khelil said, "Everything could happen." China's continued growth would put further pressure on oil prices, while OPEC's decision to increase production would not affect prices because of the refining constraints.

3. (U) Khelil earlier said June 23 that rising oil prices have not hurt the international economy, and the market could withstand prices of \$80/barrel or even \$100/barrel, since these increases were not accompanied by inflation or an economic crisis. Oil consuming regions also had different perspectives on pricing. China's reliance on capital and labor, he noted, made energy matters a secondary concern for the Chinese. For its part, the EU was paying the Euro equivalent of \$35 per barrel, and as long as the Euro remained strong the EU would not feel any changes in the market. Khelil commented that high oil prices led to Algeria's massive \$17.2 billion in oil income for the period January through May 2005.

ALGERIA TO INCREASE REFINERY
CAPACITY OVER NEXT 2-3 YEARS

4. (SBU) In a June 25 conversation with Ambassador, Khelil noted that Yukos' difficulties were reducing supplies to the market. In response to this and other market supply pressures, Algeria would bring new refinery capacity online in two to three years, including a 300,000 bpd refinery for which a tender had just been announced. This increased capacity would significantly increase Algeria's refined oil exports. Until then, limited refinery capacity would continue to be a serious constraint, and the health of the U.S. market would continue to play a role in pricing. A recession in the U.S., Khelil acknowledged, would lead to a drop in Chinese demand for oil, implying a potential drop in prices.

U.S. COMPANY CITED IN
ANTI-COMPETITIVE PRACTICES

5. (C) Ambassador inquired June 25 with Minister Khelil about his remarks at the June 4 U.S.-Algeria Business Council "Energy and Water Symposium," in which he mentioned unspecified, objectionable practices by an unnamed foreign energy firm. Khelil confirmed to Ambassador that his intention had been to caution a firm that was acting to restrict competition by forbidding its non-U.S. partners to submit bids for oil block tenders. Sonatrach had uncovered this pressure tactic while questioning some firms about why they had not participated in the bidding. In a subsequent conversation with a U.S. energy firm, Ambassador was told

that a partnerships agreement gave the partnership first right of refusal in making a bid jointly, but that individual partners were free to go ahead and tender a bid if the joint partnership declined to do so.

ERDMAN